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& BERKOWITZ, PC

JOE A. CONNER
Direct Dial (423) 752-4417
Direct Fax (423) 752-9527
E-Mail Address jconner@bakerdonelson.com

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T.R.A. DOCKET ROOM

1800 REPUBLIC CENTRE
633 CHESTNUT STREET
CHATTANOOGA, TENNESSEE 37450
PHONE 423 756 2010
FAX 423 756 3447

www.bakerdonelson.com

January 15, 2004

Chairman Deborah Taylor Tate
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Via Federal Express
Priority Overnight Delivery

***Re: Joint Petition of Tennessee-American Water Company and Marion County,
Tennessee, for Approval of Purchase Agreement
TRA Docket No. 03-00388***

Dear Chairman Tate:

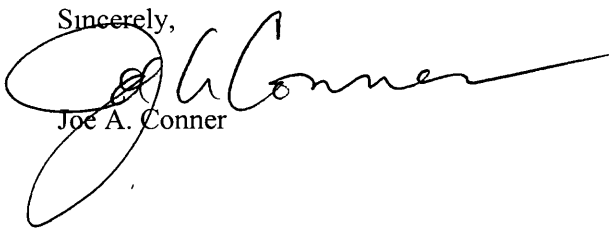
Please find enclosed the original and fourteen copies of each of the following documents for filing in the above-referenced matter:

- (1) Direct Testimony of James R. Hamilton;
- (2) Direct Testimony of Dan Bailey; and
- (3) Memorandum in Support of Petition.

Please stamp the extra copies "filed" and return them to me in the enclosed envelope.

Thank you for your assistance in this matter. Please do not hesitate to contact me if you have any questions about this filing.

Sincerely,



Joe A. Conner

JAC:klc
Enclosures

C IAC 290849 v1
2015477-000017 01/15/2004

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

JOINT PETITION OF)	
TENNESSEE-AMERICAN WATER)	
COMPANY AND MARION COUNTY,)	DOCKET NO. 03-00388
TENNESSEE FOR APPROVAL OF)	
PURCHASE AGREEMENT)	
)	

**DIRECT TESTIMONY OF
JAMES R. HAMILTON**

1 **Q: Please state your name, place of employment and title.**

2 A: My name is James R. Hamilton. I am the Director of Business Development for the
3 Southeast Region of American Water. Tennessee-American Water Company
4 ("Tennessee American") is a wholly owned subsidiary of American Water and is part of
5 the Southeast Region. Accordingly, I am personally familiar with the facts associated
6 with the purchase by Tennessee American from Marion County, Tennessee of the assets
7 known as the Suck Creek Water System located within Marion County.

8 **Q: What is the purpose of your testimony today?**

9 A: The purpose of my testimony is to provide information to support the joint petition filed
10 by Tennessee American and Marion County for the approval of the purchase of the assets
11 that make up the Suck Creek Water System.

12 **Q: Please identify a brief history of the steps that led up to the execution of the**
13 **Purchase Agreement that is pending for approval before the Authority.**

14 A: Tennessee American was initially contacted by Bernie McDowell, who was then
15 Chairman of the Suck Creek Utility District. For a number of years, the Suck Creek
16 Utility District had a difficult time providing a sufficient water supply to its customers
17 during drought conditions. The District's water source consisted of three wells and, at the
18 time, did not have any alternate source of supply. On occasion, Tennessee American
19 came to the aid of the District, by trucking water to the District, when shortages were
20 being experienced. The Suck Creek Utility District was also under a moratorium by the
21 Tennessee Department of Environment and Conservation ("TDEC") preventing new
22 connections to the system due to water source issues. Mr. McDowell advised Tennessee
23 American that the Suck Creek Utility District was desirous of getting out of the water
24 business and looking for a professional company such as Tennessee American to take
25 over the operation.

- 26 **Q: When did Marion County become involved in the negotiation process?**
- 27 A: Suck Creek Utility District was continually working with Marion County to obtain a
28 \$500,000 Community Development Block Grant ("CDBG") to help pay for a portion of
29 the cost of constructing facilities that would be necessary to connect the Suck Creek
30 system to an alternative source of supply. Accordingly, Marion County was involved in
31 the negotiations from an early point in attempting to find a solution to the water problem.
32 In order to effectuate a transfer of the assets to Tennessee American, the District
33 petitioned the County Executive of Marion County for an order permitting the
34 consolidation and transfer of the Suck Creek System and all of the District's franchises,
35 facilities and other assets, property and liabilities to the County in order to more
36 efficiently and conveniently furnish the service or services authorized by the District's
37 order of creation. However, the County likewise had no interest in remaining in the
38 water business. Therefore, the County and Tennessee American entered an Operations
39 and Maintenance Agreement and an Asset Purchase Agreement to effectuate the ultimate
40 transfer subject to approval by the Authority.
- 41 **Q: What was the primary reason for executing the Operations and Maintenance**
42 **Agreement with the County?**
- 43 A: Due to the very real issue of serious water supply problems for the customers of the Suck
44 Creek System, the primary reason for executing the Operations and Maintenance
45 Agreement was to enable Tennessee American to assume the operation of the system
46 until such time as the purchase could be finalized. There was also another major factor
47 involved in this decision. Time was literally of the essence. Marion County was
48 contributing \$500,000 in CDBG funds to pay a portion of the construction cost of the
49 facilities necessary to connect the Suck Creek System to an alternative source. If the
50 construction on the connector line had not begun by June 30, 2003, the County was in
51 jeopardy of losing the CDBG funds. By entering into a long-term Operations and
52 Maintenance Agreement, the CDBG funds were retained and in conjunction with the
53 investment agreed to by Tennessee American, the connector line was in position to
54 become a reality.
- 55 **Q: Please describe the facilities that have been or are in the process of being**
56 **constructed in which Tennessee American is investing and in which the CDBG**
57 **funds have been utilized.**
- 58 A: The purpose of the connector facilities are to provide the Suck Creek System with an
59 alternative source of water supply that is clearly needed based on this history of the utility
60 district. The pipeline will connect the Suck Creek System to the Lone Oak Utility
61 District and consists of approximately 21,000 feet of 12-inch main. Additionally,
62 Tennessee American is installing monitoring and control equipment.
- 63 **Q: Is it necessary for the provision of quality water service to the Suck Creek System**
64 **customers to connect to the Lone Oak Utility District in Sequatchie County,**
65 **Tennessee?**

66 A: Yes, it is necessary for the provision of quality water service to the Suck Creek System to
 67 connect through the connector facilities to the Lone Oak Utility District for an alternative
 68 source of supply. As I previously indicated, the Suck Creek System is currently served
 69 from three wells, which have, in the past experienced inadequate capacity during drought
 70 conditions. Because of this, TDEC placed a moratorium on additional connections to the
 71 System until a more reliable water source is secured. Once the interconnection is
 72 complete, the Suck Creek System's needs can be supplied if needed entirely through the
 73 adjacent Lone Oak Utility District, and as a result, a reliable source of water will be
 74 available to present and future customers.

75 **Q: What is the expected investment of Tennessee American funds in the connector**
 76 **facility?**

77 A: It is expected that \$334,000 in Tennessee American funds will be used to complete the
 78 interconnection and also to install control and telemetry systems, all of which will be
 79 reflected in the rate base of the Suck Creek System.

80 **Q: As part of the Purchase Agreement, does Tennessee American also obtain a**
 81 **franchise to use the public rights-of-way in Marion County?**

82 A: Yes. A franchise is provided within the terms and conditions of the Purchase Agreement
 83 to allow Tennessee American to use all public rights-of-way, streets, alleys, sidewalks
 84 and utility easements that are necessary to operate and maintain the Suck Creek System.
 85 In addition, there was no franchise fee imposed under the Agreement.

86 **Q: What is the rate structure that is proposed by Tennessee American once it acquires**
 87 **the Suck Creek System?**

88 A: The Purchase Agreement provides that Tennessee American will continue to provide
 89 service to the Suck Creek System customers at the current rates they are paying until such
 90 time as different rates may be approved by the Authority. The expenses and revenues of
 91 the Suck Creek System will be kept separate and distinct from the operation of the
 92 remainder of Tennessee American's system.

93 **Q: Will the acquisition of the Suck Creek System impact the rates of current Tennessee**
 94 **American ratepayers?**

95 A: No. The Suck Creek System will be kept separate and apart from the Tennessee
 96 American existing system for purposes of accounting and ratemaking. Tennessee
 97 American will not combine the rates for both the Suck Creek System and the balance of
 98 the Tennessee American System until and unless it petitions the Authority for approval of
 99 such a combined tariff in the future. The Suck Creek System will be operated by
 100 Tennessee American as a separate business unit in the Tennessee American accounting
 101 system. Testimony from Dan Bailey provides more detail in regard to how the
 102 accounting will take place.

- 103 **Q: Please explain how much and what types of upgrades are needed to address any**
104 **deficiencies that the Suck Creek Water System currently has.**
- 105 A: As mentioned above, the most severe deficiency of the Suck Creek System is lack of a
106 reliable source of supply. The immediate upgrades consist of the interconnection to the
107 Lone Oak Utility District System for an estimated construction cost of \$818, 250, with
108 \$500,000 of the construction costs being paid by the CDBG contributed by Marion
109 County. The Company will also invest an estimated \$15,750 in a system control and data
110 acquisition equipment commonly referred to as "SCADA," which is used for remote
111 monitoring and control of tank levels, etc.
- 112 **Q: Has Tennessee American made arrangements to buy and/or wheel water through**
113 **the Lone Oak Utility District through the connector facilities currently under**
114 **construction?**
- 115 A: Yes. Tennessee American has an agreement with Lone Oak Utility District to connect to
116 its system once it is built and to wheel water through the System to provide service to the
117 Suck Creek System. Tennessee American also has an Operations and Maintenance
118 Agreement with Lone Oak Utility District.
- 119 **Q: What are the benefits of an Operations and Maintenance Agreement such as those**
120 **entered between Tennessee American and Marion County, and Tennessee American**
121 **and Lone Oak Utility?**
- 122 A: In many cases, agreements such as these provide the best solution to extending service or
123 improving service to existing small, troubled water systems. They facilitate the ability of
124 Tennessee American to provide professional water service and resources to these
125 communities. The agreements also benefit the Company because they provide it with the
126 ability to continue to look for ways to grow its customer base when appropriate. We
127 believe growth provides immediate revenue benefits and a larger base on which to spread
128 fixed costs and mitigate future rate increase impacts. Tennessee American is not aware
129 of any statute or regulation, which would require Tennessee Regulatory Authority
130 approval of Operations and Maintenance agreements such as those entered between it and
131 Lone Oak Utility District and Marion County.
- 132 **Q: Were any of the current investments and expenses in the facility connector between**
133 **the Suck Creek System and the Lone Oak Utility District, as well as their**
134 **corresponding revenues included in the Company's rate case (Docket No. 03-**
135 **00118)?**
- 136 A: No. As mentioned above, the revenues, expenses and rates are going to be kept separate
137 from the remainder of the Tennessee American System. The investments and expenses
138 related to the Suck Creek System were specifically excluded from the Company's rate
139 case.
- 140 **Q: Are you requesting a Certificate of Convenience and Necessity ("CCN") from the**
141 **Authority in order to operate the Suck Creek System in Marion County?**

142 A: Since the Suck Creek System is contiguous to the existing service area of Tennessee
143 American located within the environs of Chattanooga, Tennessee, it has been the
144 Company's position that it has sufficient authority to operate the Suck Creek System
145 under its existing State chartered franchise. However, in order to address any concern
146 that the Authority may have, Tennessee American has amended its petition to request a
147 CCN to the extent the Authority deems one is necessary. In that event, Tennessee
148 American has established in the record of this case that the present and future public
149 convenience and necessity require that it establish and operate the System formerly
150 known as the Suck Creek Utility District. In addition, the Suck Creek area that
151 Tennessee American seeks to serve is currently served by Marion County and not by a
152 competing private company or public utility district.

153 Q: In your opinion, how does the approval of this petition impact public interest?

154 A: The approval of the petition is necessary and proper for the public convenience and to
155 properly conserve and protect the public interest.

156 Q: The Purchase Agreement references that Tennessee American will follow certain
157 rules and regulations. What rules and regulations do you intend to follow?

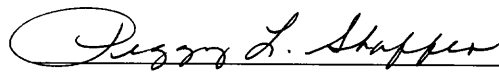
158 A: As indicated in the amendment to the petition, Tennessee American intends to apply and
159 follow the rules and regulations adopted in its tariff in conjunction with its ownership
160 and/or operation or management of the assets subject to the Purchase Agreement.

161 No further questions.



James R. Hamilton, Director for Business
Development, Southeast Region of
American Water

Sworn to and subscribed before me
this 13th day of January, 2004.



Notary Public

My Commission Expires: March 15, 2005

